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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 23, 1993

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: RM 8354 / Revision of the Commission's Part 64 Requirements for the Filing of Cost Allocation Manuals by Certain Local Exchange Carriers

On behalf of Nevada Bell, please find enclosed an original and six copies of its "Reply Comments" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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(NOV 23 1993)

In the Matter of:)

Revision of the Commission's Part 64)
Requirements for the Filing of)
Cost Allocation Manuals by)
Certain Local Exchange Carriers)

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RM-8354

REPLY COMMENTS OF NEVADA BELL

Nevada Bell respectfully submits these reply comments in response to comments filed by various parties regarding the Petition for Rulemaking ("Petition") filed by the United States Telephone Association ("USTA") on September 9, 1993. On November 8, 1993, Nevada Bell, along with other parties, filed comments supporting USTA's Petition to amend section 64.093(a) to apply to only those carriers with annual operating revenues of \$1 billion or more. The proposed amendment is appropriate for Nevada Bell because Nevada Bell has a small percentage of expenses and investment dedicated to nonregulated products, CAM compliance uses limited carriers resources which could be used for direct ratepayer benefit, and other safeguards are already in place to protect against cross-subsidization.

In its comments, MCI¹ urges the Commission to reject the Petition's proposed amendment of section 64.903(a) because it claims the \$1 billion threshold is arbitrary. Nevada Bell agrees

¹ MCI Comments, pp.1, 4.

that the \$1 billion threshold may be arbitrary. In fact, any revenue threshold will involve some degree of arbitrariness. For example, the current \$100 million threshold could be interpreted as an arbitrary standard. However, the FCC has adopted the \$100 million threshold for many purposes, such as the definition of Class A and B carriers.² Given that any threshold will involve some degree of arbitrariness, Nevada Bell submits that a \$1 billion threshold is appropriate.³

Nevada Bell acknowledges that the Petition does not specify to whom the \$1 billion threshold will apply. Nevada Bell suggests that any local exchange carrier that has responsibility for filing a CAM and tariffs should be eligible for the exemption. For example, Nevada Bell would be eligible for the exemption because Nevada Bell files its own CAM and tariffs. The entity which files the CAM and tariffs would be the entity that would be eligible for the exemption.

The comments submitted by MCI and by the Public Utility Commission of Ohio ("PUCO") do not support rejection of the

² 47 C.F.R. Section 32.11.

³ In its Public Notice, the Commission requested comment on thresholds set at \$250 million, \$500 million and \$750 million. Nevada Bell would be exempt from CAM requirements under all three of these thresholds.

Petition.⁴ PUCO argues that the carriers requesting relief from CAM requirements and their non-regulated affiliates provide service to major urban areas where nonregulated services are most likely to develop.⁵ PUCO also believes the nonregulated activities of these carriers and their nonregulated affiliates will represent a significant portion of carrier revenues and expenses.⁶ Accordingly, PUCO advocates that the Commission maintain the current regulatory threshold.

PUCO's arguments are unpersuasive for two reasons. First, PUCO advocates complete rejection of the proposed amendment because it claims the majority of the affected carriers provide service to major urban areas where the percentage of nonregulated revenues and expenses are likely to grow. However, the notion that the majority of the affected carriers will in the future have a significant portion of revenues and expenses from nonregulated activities does not justify denying all the affected carriers eligibility for the exemption and does not support complete rejection of the proposed amendment.

⁴ Bell Atlantic filed comments which essentially support the proposed amendment. The proposed amendment would eliminate CAM requirements for carriers with operating revenues under \$1 billion. However, Bell Atlantic goes further and suggests the Commission eliminate CAM requirements for all carriers. Bell Atlantic Comments, p.1.

⁵ PUCO Comments, p.2.

⁶ Id.

Second, PUCO's claims are speculative. PUCO mentions "unregulated services... likely to develop" and nonregulated activities that "will represent a significant portion of carrier revenues and expenses."⁷ PUCO does not substantiate these claims about future developments in the nonregulated arena. Thus, the PUCO's concerns lack validity in terms of the current state of nonregulated activities.

Even if PUCO established the validity of its concerns, such concerns would not be applicable to Nevada Bell. Nevada Bell does not fit the description of the type of carrier about which PUCO is concerned will qualify for the exemption from CAM filings and audit. Nevada Bell has only approximately 2.5% nonregulated revenues, approximately 3.5% nonregulated expense, and approximately .1% nonregulated investment. Furthermore, Nevada Bell serves Reno and Carson City along with rural northern Nevada. Reno with a population of approximately 196,000 residents and Carson City with a population of approximately 43,000 residents do not constitute major urban areas. Clearly, Nevada Bell does not serve urban areas and does not have a large percentage of nonregulated revenues, expense, and investment.

MCI claims that the proposed amendment would free carriers from a degree of oversight that is necessary to promote just and reasonable rates for interstate services, which is the primary

⁷ PUCO Comments, p.2.

intent of the Commission's cost allocation rules.⁸ Although it is true that cost allocation rules protect ratepayers from cross-subsidization, under price cap regulation these rules do not necessarily have a direct cause and effect on rates. In fact, rates for most carriers required to file CAMs are currently set pursuant to price caps. Thus, relaxation of the CAM requirement will not directly affect rates. Furthermore, if the proposed amendment is adopted, other safeguards will continue in effect and will function in conjunction with price cap regulation to ensure just and reasonable rates.

MCI seeks to minimize the administrative burden of CAM compliance by stating that the administrative burden of complying with the rules has likely diminished over time.⁹ MCI claims that most of the costs associated with the CAM are incurred when the CAM is developed. MCI claims that if revisions are minor, the effort to implement them and the cost of the ensuing and more narrowly focused audit will also be small.

While it is true that initial development of the CAM was time-consuming, it is also true that subsequent compliance with CAM requirements is similarly time-consuming and expensive. For example, the scope of the annual audit has broadened and covers more than the implementation of revisions to the CAM. Annual

⁸ MCI Comments, pp. 3-4.

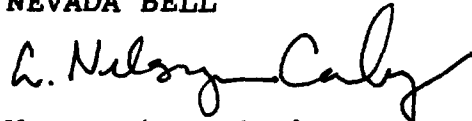
⁹ MCI Comments, p. 3.

audits are performed to FCC specifications and test the full implementation of FCC accounting rules as well as CAM compliance, not just CAM revisions made during the year. The costs of such audits are considerable and in fact have increased significantly since the implementation of the CAM.

Nevada Bell urges the Commission to weigh the burdens of CAM filings and audits on carriers with limited nonregulated activities against the hypothetical threats of cross-subsidization. Such a weighing will indicate that the burden of meeting the requirements outweighs the necessity of CAM filings and audits. For this reason, Nevada Bell requests the Commission grant the Petition and include Nevada Bell in the resulting rulemaking.

Respectfully submitted,

NEVADA BELL



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Its Attorneys

Date: November 23, 1993

CERTIFICATE OF SERVICE

I, Adin E. Earl, hereby certify that a copy of the foregoing "Reply Comments of Nevada Bell", in the Matter of Revision of the Commission's Part 64 Requirements for the Filing of Cost Allocation Manuals by Certain Local Exchange Carriers in RM-8354, were served by hand or by first-class United States mail, postage prepaid, upon the parties appearing on the attached service list this 23rd day of November, 1993.


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